

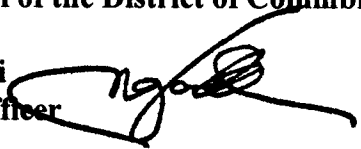
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: APR -1 2008

SUBJECT: Fiscal Impact Statement: "MPD Retirement Options Amendment Act of 2007"

REFERENCE: Bill 17-460 As Introduced

Conclusion

Given that all costs associated with implementing the proposed legislation are to be borne by the member opting to transfer between retirement tiers, funds are sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation.

Background

The proposed legislation would amend D.C. Official Code § 5-712(h) *passim* to authorize new and existing sworn members of the Metropolitan Police Department (MPD) to transfer to any of the existing retirement programs listed at §5-712(a). The proposed legislation provides that all costs associated with a voluntary transfer would be borne by the member, and explicitly states that the District would not be responsible for any administrative or program costs associated with a retirement program transfer. The proposed bill would also require members hired after the effective date of the proposed legislation to make a one-time election to participate in one of the existing retirement options. D.C. Official Code § 1-907.03(c) provides that, "Prior to the enactment of any law, resolution, regulation, rule, or agreement producing any change in benefits under the (Police Officers, Firefighters, and Teachers) Retirement Program, the Mayor shall engage, and pay for, an enrolled actuary...to estimate the effect of that change in benefits..."

A summary of the major benefit provisions of the three existing retirement tiers are listed in the table below, which was created by EFI Actuaries (the enrolled actuary) and provided to the OCFO.

Table 1: Summary of Major Benefit Provisions (existing)

	Current Benefit Provisions (as of October 1, 2007)		
	Tier 1 (hired before 2/15/80)	Tier 2 (hired 2/15/80 - 11/9/96)	Tier 3 (hired after 11/9/96)
Retirement Eligibility (all members also eligible at age 60+)	20 years of service	Age 50 with 25 years of service	25 years of service
Benefit Multiplier	2.5% for first 20 years, then 3.0%	2.5% for first 25 years, then 3.0%	2.5% for all years of service
Employee Contributions	7.0%	7.0%	8.0%
Averaging Period for Final Pay	12 months	36 months	36 months
Retiree COLA	Based on Equalization Pay (active pay increases)	Based on increases in CPI	Based on increases in CPI (not to exceed 3.0% annually)

* Information and table provided by EFI Actuaries

Financial Plan Impact

Given that all costs associated with implementing the proposed legislation are to be borne by the member opting to transfer between retirement tiers, funds are sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation states that "The District shall not be responsible for any additional administrative or program costs associated with a retirement program transfer." However, as noted by EFI Actuaries in an actuarial analysis provided to the Office of the Chief Financial Officer (OCFO) on January 25, 2008, "...any time actuarial assumptions are used there will be gains and losses to the extent that actual experience...differs from what has been assumed," and that "It is impossible to predict the exact impact on (Police Officers' and Firefighters' Retirement) Plan costs..." in part due to the fact that the extent to which the retirement transfer option is utilized by Plan members is unknown.

The following table displays the estimated costs to be borne by each individual member transferring between benefit tiers based upon age and service. It displays the cost of transferring between benefit tiers as a percent of pay—for instance, "3x" = 3 times the member's current pay rate. This table and calculations therein were provided to the OCFO by EFI Actuaries:

Table 2: Examples of Estimated Cost of Transferring Benefit Tiers

Age	Service	Cost (as a multiple of current pay)
From Tier 2 to Tier 1		
35 - 40	15	7x - 9x
45	15	3.5x - 4.5x
40 - 45	20	8x - 10x
50	20	4.5x - 5.5x
45	25	11x - 11.5x
From Tier 3 to Tier 1		
25 - 30	2	5x - 6.5x
30 - 35	5	4.5x - 6.5x
40	5	2x - 3x
30 - 35	10	7x - 9x
40	10	4.5x - 5.5x
45	10	2x - 3x
From Tier 2 to Tier 3		
35	15	3x - 4x
40	20	4x - 4.5x
45	25	5x - 5.5x

* Information and table provided by EFI Actuaries

EFI states in their study that for new hires-- who would otherwise enter Tier 3 and contribute 8% of their pay to the Police Officers' and Firefighters' Retirement Fund— the employee contribution rate would be approximately 27% of pay.

EFI notes two specific administrative costs associated with the implementation of this legislation. One, the U.S. Treasury Department has estimated that it would cost approximately \$1.5 million to adapt the current benefit administration software in order to implement the proposed bill. Two, EFI states that "At least several hundred dollars of actuarial consulting fees would also be incurred for each individual calculation" if and when a sworn member opts to switch between retirement tiers.

Given that police officer contributions to the Retirement Plan are made after income taxes are withheld (also known as "after-tax" contributions), significantly increasing such contributions would not have an impact on District income tax revenues over the budget and financial plan period.

While the enrolled actuary was required to estimate the impact of the retirement provision of the proposed legislation as if it would apply to the Fire and Emergency Medical Services Department,¹ this fiscal impact statement does *not* take these costs into account, as the proposed legislation, as currently drafted, only applies to MPD.

¹ D.C. Official Code § 1-907.03(c)(2) requires that "...whenever any change in benefits under a retirement program is made to either, but not both, the Metropolitan Police Department or the Fire and Emergency Medical Services Department, the Mayor shall engage an enrolled actuary to perform the same study contemporaneously for the other employee group for which the change was not made."